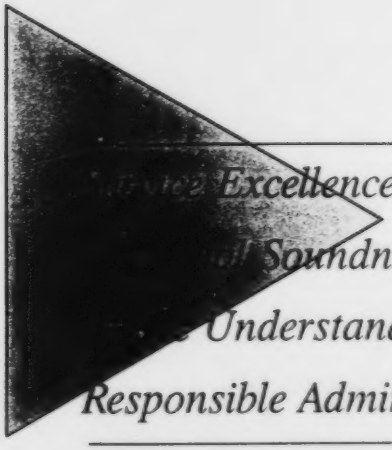
Workers' Compensation Board

Annual Report 1988



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Profile

The Workers' Compensation Board is a statutory corporation created by an Act of the Ontario Legislature in 1914. It is responsible for administering the *Workers' Compensation Act* and Regulations of Ontario. The Board raises funds from the province's employers in order to provide compensation to workers who are injured on the job or who contract an occupational disease.

Compensation includes payment for loss of wages that may result from the injury or disease, payment of health care expenses, a wide range of vocational and medical rehabilitation services, permanent disability pensions, and death benefits to surviving dependents.

The Board also sponsors a range of accident prevention activities.

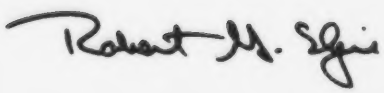
Si vous désirez obtenir un exemplaire du Rapport annuel et du supplément statistique de 1988 en français, veuillez vous adresser à la
Commission des accidents du travail
Direction des communications
2, rue Bloor Est
Toronto (Ontario)
M4W 3C3
(416) 927-3500

A Statistical Supplement to the 1988 Annual Report is available upon request from the
Workers' Compensation Board
Communications Branch
2 Bloor Street East
Toronto, Ontario
M4W 3C3
(416) 927-3500

Workers' Compensation Board
Commission des accidents du travail

Colonel The Honourable Lincoln M. Alexander, P.C., K. St. J., Q.C., B.A., LL.D.,
Lieutenant Governor of Ontario

The Workers' Compensation Board is pleased to submit its annual report
of operations for 1988.



Robert G. Elgie, Q.C., M.D., F.R.C.S.(C), Chairman

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A Statistical Supplement to the 1988 Annual Report is also available upon request from the Board's Communications Branch (see inside front cover).

1988 *Highlights*

New Medical Rehabilitation Strategy...

approved by the Board of Directors to provide early access to high quality health care closer to workers' homes through the creation of a network of community clinics and regional evaluation centres. A provincial medical rehabilitation institute will monitor quality and carry out epidemiological and health care research.

New Vocational Rehabilitation Strategy...

approved in principle by the Board of Directors to provide early, effective and intensive vocational rehabilitation services to mitigate the effects of an injury on a worker's employment capabilities. This strategy stresses the partnership between the injured worker, the employer, the treating physician and the Board.

"Injury by Accident"...

as part of the first Section 86n review, the Board of Directors determined that "injury by accident" in the sense of "chance event" requires an identifiable occurrence separate from the injury; an injury which is the result of the work performed, whether it occurs suddenly or develops over time, should be considered under the disablement definition of accident.

Windsor Regional Office Opening...

represents another significant step in the Board's decentralization program.

Promoting a Safe Workplace through "Workwell"...

a pilot program developed and approved by the Board of Directors for introduction in 1989, using financial rewards and penalties for employers to maintain safe and healthy workplaces.

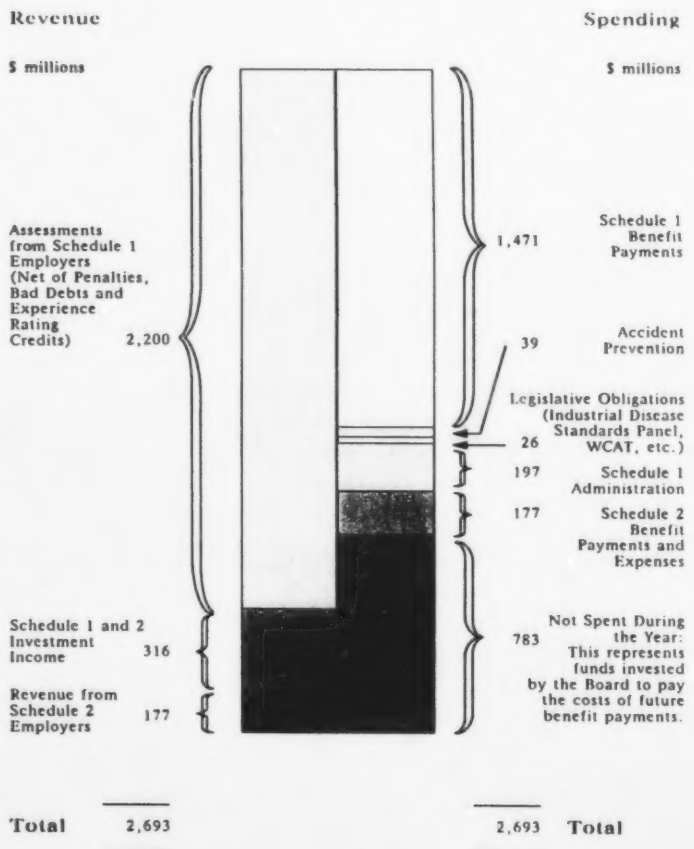
Development of a Workers' Benefit System...

to automate the benefit payment function by the end of 1989.

WORKERS' COMPENSATION BOARD - SUMMARY OF OPERATIONS

YEAR ENDED DECEMBER 31, 1988

The following shows the principal sources of 1988 revenue, which totalled $2.7 billion, and where it went:


Revenue
$ millions
Assessments from Schedule 1 Employers (Net of Penalties, Bad Debts and Experience Rating Credits) 2,200
Schedule 1 and 2 Investment Income 316
Revenue from Schedule 2 Employers 177
Total 2,693
Spending
$ millions
1,471 Schedule 1 Benefit Payments
39 Accident Prevention
26 Legislative Obligations (Industrial Disease Standards Panel, WCAT, etc.)
197 Schedule 1 Administration
177 Schedule 2 Benefit Payments and Expenses
783 Not Spent During the Year: This represents funds invested by the Board to pay the costs of future benefit payments.
2,693 Total

Chairman's Message

Robert G. Elgie

The years 1986 to 1988 marked an era of unprecedented change for the Workers' Compensation Board (WCB). In addition to a complete restructuring of the organization, a broad range of new policies and strategies were developed, all with one central purpose: to enhance the quality of services provided to injured workers and employers of the province.

This period of intense administrative and organizational change was also marked symbolically with the conclusion, in September 1988, of the terms of office of five Board members appointed between 1985 and 1987 as part of the WCB's first external Board of Directors: Mrs. Silvia Mecozzi, representative of the public; Mr. Gérard Docquier, representative of labour; Mr. Donald Holder, representative of labour; Mr. Douglas Peters, representative of employers; and the Hon. Robert Stanbury, representative of employers.

Mr. Joseph Duffy, representative of labour; Mr. Stephen Hessian, representative of employers; Mr. Paul Richards, representative of small business; and Ms. Almerinda Rebelo, representative of injured workers, who were all members of the first Board of Directors, were reappointed by the Government to serve further terms on the Board.

In 1988, I was pleased to welcome four new members to the Board of Directors: Dr. Maria Zorzitto, representative of professional persons and the general public; Mr. Michael Warren, representative of employers; Mr. Charles Hantho, representative of employers; Mr. David Mackenzie, representative of labour; and Mr. Cliff Evans, representative of labour. Mr. Hantho's relocation to Montreal necessitated his resignation in November 1988. Mr. Evans resigned in December 1988 due to other commitments.

In 1989, Mr. Fred Telmer, representative of employers, and Mr. James Goodison, representative of labour, will begin their term on the Board of Directors.

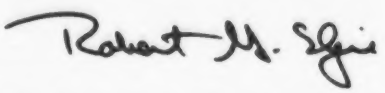
I would like to acknowledge the significant contribution of each of these individuals, who have spent considerable time and effort addressing the critical and complex issues facing the workers' compensation system.

Nineteen eighty-eight was a year of numerous milestones for the WCB, not the least of which was the development of a Mission Statement, approved by the Board of Directors in December 1988. While recognizing that the WCB's mandate is to administer the Act, this statement clearly defines the Board's purpose: "to exercise its responsibilities with a sense of fairness, compassion and urgency towards the resolution of the serious problems affecting hundreds of thousands of Ontario citizens each year." In order to carry out its mission and statutory mandate, the WCB has identified four major strategic goals: service excellence; financial soundness; public understanding; and responsible administration. Together, these goals form the cornerstones of the workers' compensation system in Ontario and serve as a guide to staff in carrying out their responsibilities.

Nineteen eighty-nine marks the 75th anniversary of the passage of the Ontario *Workers' Compensation Act*. During the past 74 years, the system has responded to the changing needs of its stakeholder communities through the development and implementation of a broad spectrum of policies and program changes.

Over the past 74 years, the Workers' Compensation Board has developed into an organization that calls for participation from all stakeholders — the worker and employer communities, health care professionals, the Board of Directors and WCB staff — to share in the pursuit and maintenance of a compensation system that promotes fairness and equity for all individuals who may be affected by it.

On behalf of the Board of Directors,



Robert G. Elgie, Q.C., M.D., F.R.C.S.(C)
Chairman of the Board

Board of Directors

Seated (l. to r.): Stephen Hessian, Paul Richards, David Mackenzie, Fred Telmer, Maria Zorzitto. Standing (l. to r.): Ronald Ellis, Alan Wolfson, Robert Elgie, Joseph Duffy, Almerinda Rebelo, Michael Warren. Inset: James Goodison.

Robert G. Elgie,
Q.C., M.D., F.R.C.S.(C)
Chairman of the Board

Alan D. Wolfson, Ph.D.
Vice-Chairman of Administration and President, Workers' Compensation Board

• **Joseph Duffy**
Business Manager and Secretary-Treasurer, Provincial Building and Construction Trades Council of Ontario

James V. Goodison
Grand Lodge Representative, International Association of Machinists and Aerospace Workers

• **Stephen S. Hessian**
Resident Manager, Domtar Inc.

David R. Mackenzie
Assistant to the National Director, United Steelworkers of America

• **Almerinda M. Rebelo, C.S.W.**
Executive Director, Parkdale Community Health Centre

Paul Richards
President, Johns Scientific Inc.

Fred Telmer
President, Stelco Steel

Michael G. Warren
Vice-President and Consulting Actuary, Johnson & Higgins Willis Faber

Maria L. Zorzitto, M.D.
Sunnybrook Medical Centre

S. Ronald Ellis, Q.C.
Ex Officio Member
Chairman, Workers' Compensation Appeals Tribunal

• *Audit Committee Member*

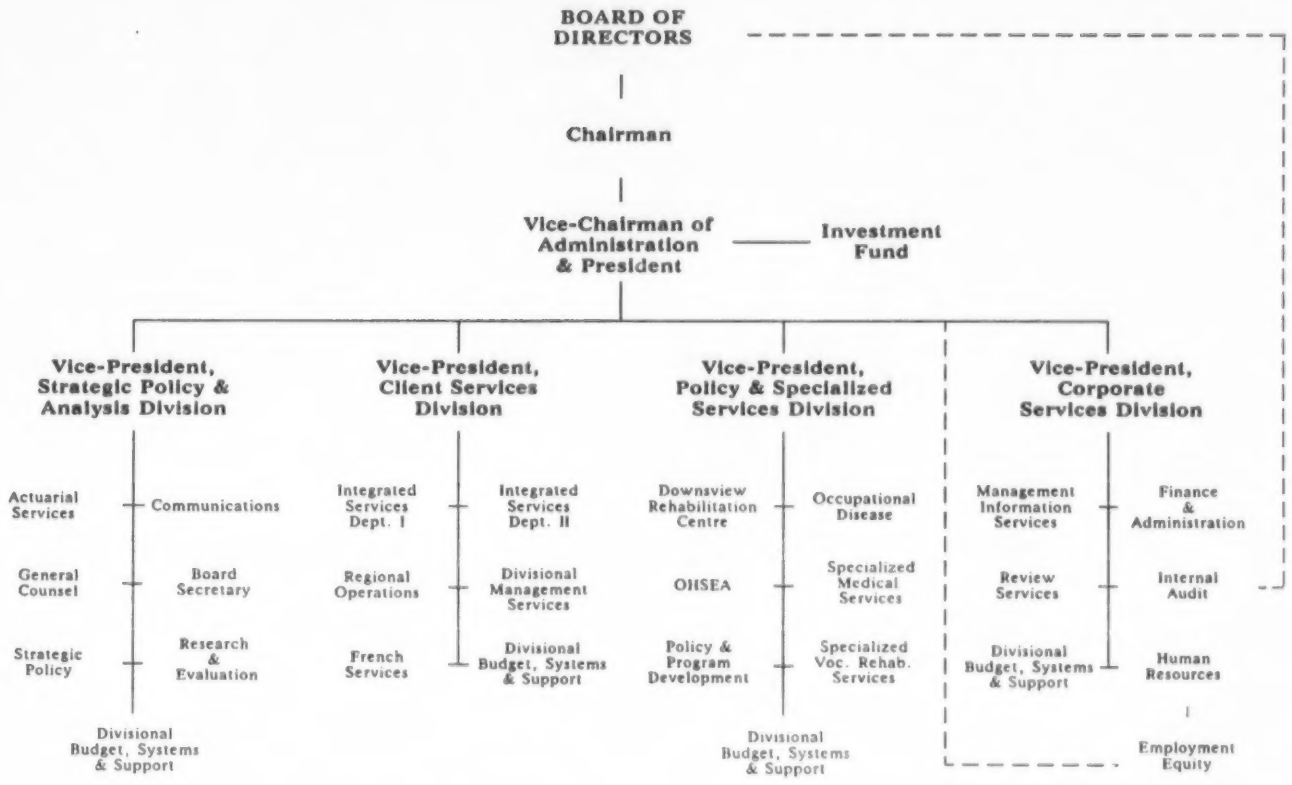
Executive Committee

Seated (l. to r.): Robert Coke, Vice-President, Strategic Policy and Analysis Division; Sam Van Clieaf, Vice-President, Corporate Services Division; Mike Czetyrbok, Vice-President, Client Services Division; Linda Angove, Secretary of the Board. Standing (l. to r.): Elizabeth Kaegi, Vice-President, Policy and Specialized Services Division; Robert Elgie, Chairman; Alan Wolfson, Vice-Chairman of Administration and President.*

** Robert D. Reilly was Vice-President, Client Services Division from January 1987 until his retirement in April 1988.*

The mandate of the Executive Committee is to assist the Vice-Chairman of Administration and President in the management of the Workers' Compensation Board's day-to-day affairs. The Executive Committee also ensures that the overall operational direction of the Workers' Compensation Board is compatible with the corporate policies as set by the Board of Directors.

Organizational Structure



Mission Statement of the Workers' Compensation Board

The mission of the Workers' Compensation Board is to be found in the principles underlying the *Workers' Compensation Act*. The Board's mandate is, fundamentally, to administer the Act; its mission is to exercise its responsibilities with a sense of fairness, compassion and urgency towards the resolution of the serious problems affecting hundreds of thousands of Ontario citizens each year. This approach reflects the philosophy captured in the motto originally established by Sir William Meredith in 1915, namely "Justice Humanely Administered".

The *Workers' Compensation Act* has four central features. First and foremost, the Act is remedial legislation affording no fault insurance protection to workers against the financial impact of workplace injuries and diseases. Second, employers are afforded protection from legal actions arising out of workplace injuries and share compensation costs on a collective basis. Third, the Act authorizes the Board to provide both medical and vocational rehabilitation to mitigate as far as possible the effects of injuries and to promote early return to work. Finally, the Act authorizes the support of health and safety education programs and the provision of financial incentives to reduce the occurrence of occupational injuries and diseases in the first instance.

In order to carry out its mission and statutory mandate, the Workers' Compensation Board of Ontario has established four major strategic goals: service excellence; financial soundness; public understanding; and responsible administration.

Service Excellence

Excellence in the provision of services to the Board's clients has several dimensions. First, and most important, is the need to provide fair and speedy decisions regarding entitlements and obligations flowing out of the *Workers' Compensation Act*. Second, there is the need to mount effective programs to provide medical and vocational rehabilitation. Third, the Board needs to ensure that the health and safety education programs it supports and the incentive programs it operates are effective in reducing accident and disease rates.

Financial Soundness

The Board has an obligation to ensure that the workers' compensation system attains the required level of funding and is financially viable over the long term. There are two aspects to the Board's mandate in this area: first, assessments must be set at an appropriate level and in an appropriate manner, and must be collected effectively; and second, the Accident Fund must be invested in a way that maximises the rate of return within the constraints of financial prudence.

Public Understanding

In order for the workers' compensation system to function effectively, there must be an understanding of the system's operations by the client groups most affected, as well as general acceptance of the Board's approach to dealing with workers' compensation issues. Without this kind of understanding and acceptance, the system will become highly adversarial and non-compliant.

Responsible Administration

While pursuing the first three goals, the Board has an obligation to organize its administrative operations in a way that will be effective and economical. This obligation involves appropriate budgetary controls. However, the Board must also maintain the ability to respond quickly and effectively to abrupt changes in the workers' compensation environment and to sustain its capacity through the maintenance and development of resources, particularly its staff.

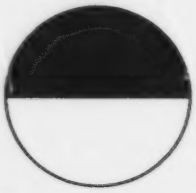
President's Report

PROPORTION OF CLAIMS SERVED BY REGIONAL OFFICES

1985

1985 Regional Offices
- *London, Sudbury*

1988



1988 Regional Offices
- *London, Sudbury, Hamilton, Thunder Bay, Ottawa, Windsor*

Legend:

Head Office

Regional Offices

Over the past three years, the Ontario Workers' Compensation Board has undergone a period of intense and unparalleled change. From its organizational structure to a co-ordinated series of policy and administrative changes, the WCB and the way it does business has been fundamentally altered. A more streamlined and effective organization, directed by a clear, strategic mandate for the 1990s, is the result.

During 1988, the Board's goals were articulated in a definitive Mission Statement. This document, formally adopted by the Board of Directors in December 1988, sets the criteria by which our current and future activities are planned and measured: service excellence; financial soundness; public understanding; and responsible administration.

Service Excellence

A commitment to service excellence is reflected in the Board's reorganization and decentralization. Prior to 1986, the WCB was segmented into 12 divisions. By 1987, we had streamlined the operation into four areas: Client Services, Corporate Services, Policy and Specialized Services, and Strategic Policy and Analysis.

One of the most important elements of the Board's reorganization was the decentralization of services to client groups. To ensure more effective and responsive services to both injured workers and employers, the Board expanded its network of regional offices. In addition to existing offices in London and Sudbury, the Board during 1986 and 1987 opened regional offices in Hamilton, Thunder Bay and Ottawa.

In March 1988, the WCB opened a sixth regional office in Windsor. The organizational structure of the Windsor Regional Office is a prototype, drawing on certain features of the regional offices and the Toronto Head Office.

With the expanded number of regional offices, more claims are being handled in the communities these offices serve. Before 1986, only 15 per cent of claims were handled outside Toronto. That number is now approximately 50 per cent. In effect, a massive transfer of over one-third of our business from Head Office to the four new regional offices has taken place within a very short time frame.

The creation of Integrated Service Units (ISUs) within Head Office was another important component of the Board's decentralization and strengthened service orientation. Under the previous organization, functions such as claims adjudication, health care benefits adjudication, medical services and vocational rehabilitation each operated under separate divisions. The introduction of ISUs in 1987 drew these functions together to provide more personal, prompt, co-ordinated and efficient service.

There are eight ISUs in total. Seven are responsible for a specific geographic area in the province not served by a regional office: Central Ontario East, Central Ontario West, Central Ontario South, Toronto North, Toronto West, Toronto East and Toronto South. The eighth ISU handles claims related to the construction industry.

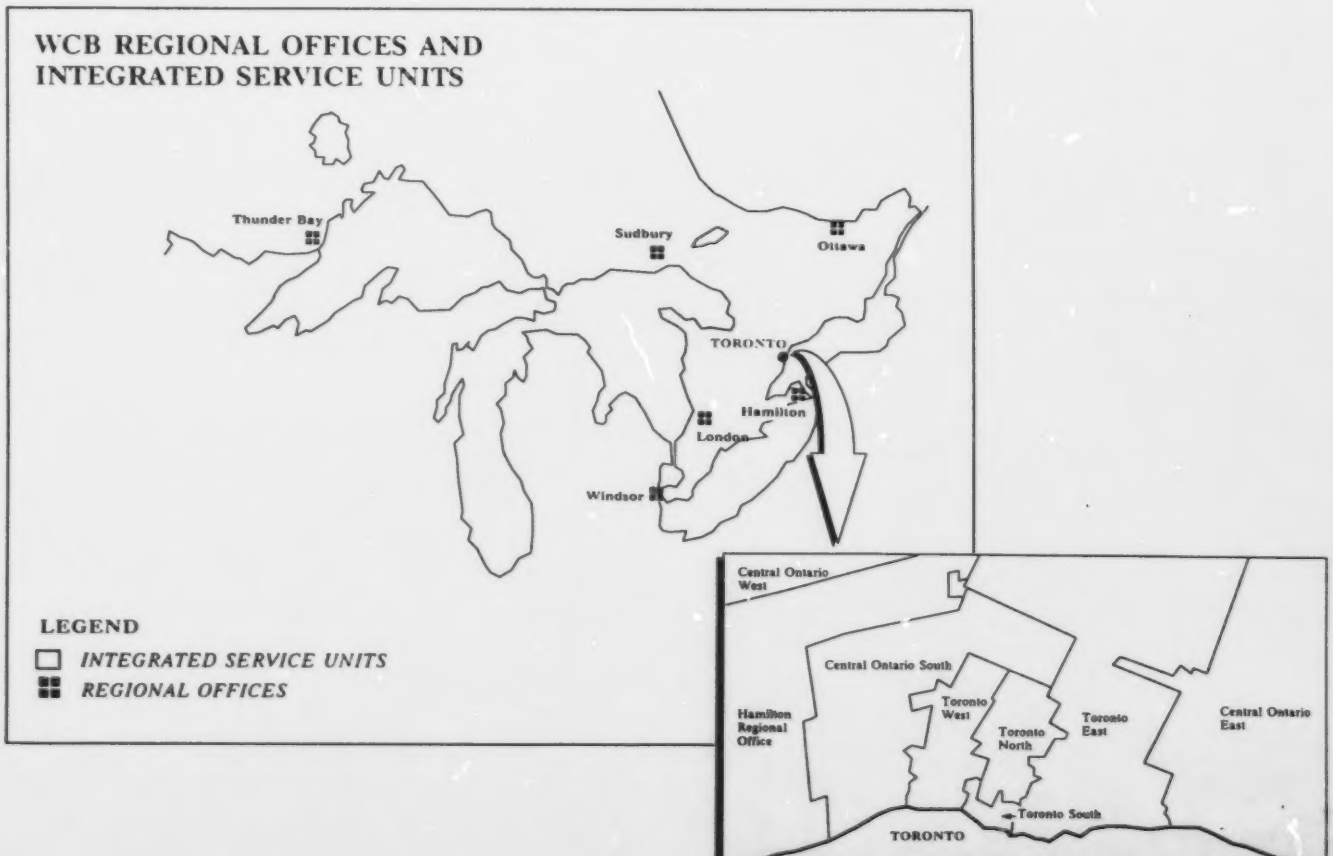
The Board's decentralization will be completed in March 1989 with the transfer of the decision review and information access functions to the ISUs and regional offices.

As reflected in the Board's organizational changes, policy development during this three-year period became a more clearly defined and co-ordinated function within the Board. A significant number of policy and program initiatives focused on service excellence. In 1987, Ontario became the first jurisdiction to recognize chronic pain disorder as a compensable condition. In the same year, the Board demonstrated its leadership in dealing with industrial disease by becoming the first in Canada to compensate for work-related lung cancer among gold miners. A review of the Board's interpretation and application of Section 45(5) of the *Workers' Compensation Act* in 1987 led to a revision of its supplement policy.

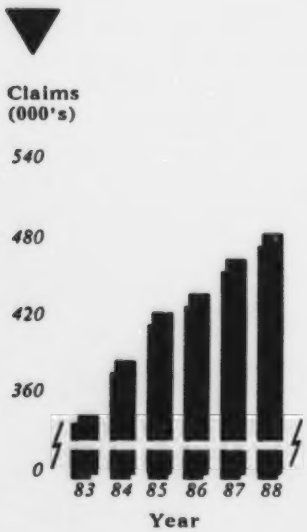
During 1988, the Board announced major changes in its approach to medical rehabilitation and vocational rehabilitation, with the goal of providing more timely and accessible service in order to facilitate early return to work by injured workers.

The Board of Directors, in March 1988, approved a long-term strategy to provide injured workers throughout Ontario with increased access to early, high-quality medical rehabilitation services.

A three-tier service delivery model provides the framework for the strategy. At the first level, a wide network of community clinics will provide the province's injured workers with physical rehabilitation soon after injury and close to home.



TOTAL CLAIMS REPORTED - 1983-1988



Total claims reported in 1988 - 489,819

When the strategy is fully operational, by 1991, between 50 and 100 of these community clinics will be available throughout Ontario.

At the second level, 10 to 11 regional evaluation centres, linked to health sciences centres or hospitals, will be established to provide expert evaluation of a worker's medical status and an evaluation of the worker's functional abilities. These services will be available to workers whose injury is complex or serious, whose recovery is prolonged, or who have difficulty in returning to work. These centres will also provide consultative services to community clinics and treating physicians, as well as undertake research and training activities.

At the third level is the creation of a provincial medical rehabilitation institute, affiliated with a major health sciences centre. The institute will co-ordinate and conduct epidemiological and health care research related to workers' compensation issues; develop quality control programs for community clinics and regional evaluation centres; and participate in the training of rehabilitation specialists.

While the medical rehabilitation strategy is being put into place, the Board's Downsview Rehabilitation Centre will continue to provide services to injured workers throughout Ontario. A transitional prototype community clinic and regional evaluation centre will be established at the Centre during 1989.

Equally important to the treatment of injured workers and their early return to work is the vocational rehabilitation strategy, which received approval in principle from the Board of Directors in April 1988.

This strategy stresses early, accessible and intensive services. Under the new vocational rehabilitation process, key participants – the injured worker, employer, the worker's treating physician and the vocational rehabilitation caseworker – will develop a specific rehabilitation plan. The position of vocational rehabilitation caseworker is a new one, created to co-ordinate and provide access to a full range of specialized vocational rehabilitation personnel, including worksite analysts, placement specialists, and social rehabilitation counsellors.

Along with a clear distinction between social and vocational rehabilitation services provided by the Board, the strategy separates the vocational rehabilitation process from benefit entitlement decisions.

Stemming from the strategy's distinction between vocational rehabilitation decisions and those of entitlement to compensation, the Board of Directors, in September 1988, adopted a policy change to Section 54, the primary section of the *Workers' Compensation Act* governing vocational rehabilitation. Effective January 1, 1989, income maintenance allowances are to be paid under Section 40 or 45; an employer's share of training-on-the-job placement costs for an injured worker will be equal to at least 50 per cent of costs for the term of the placement; and all vocational rehabilitation costs will be included in the employer's accident cost statement.

To phase in implementation of the new strategy the Board, in January 1989, will introduce a one-year pilot project in the Toronto West and Central Ontario South Integrated Service Units and in the London Regional Office. To facilitate consultation during the implementation stage, an advisory committee will be formed, comprising representatives from the worker and employer communities.

Other service-oriented initiatives in 1988 included the introduction of a direct deposit system of benefits for pensioners, survivors, treating agencies and health care professionals. This service allows payments to be deposited electronically into a client's bank account.

A branch address project was also introduced in 1988. This is a system which assigns claims according to the accident employer's branch address. It enhances the relationship between the ISUs and employers, and facilitates vocational rehabilitation efforts to return injured workers to employment with the accident employer.

Health and safety education and incentive programs are an important element of the Board's service orientation. Under the auspices of the Ministry of Labour, the Occupational Health and Safety Education Authority of the WCB collaborated with the Ministry, the Workers' Health and Safety Centre, and the safety associations through the Industrial Accident Prevention Association in the development of a Workplace Hazardous Materials Information System training program. The program was designed to assist employers in meeting their legislated obligations to train workers in the proper recognition and safe handling of hazardous chemicals in the workplace. Training information is provided through print and video materials and is available in both English and French.

In December 1988, the Board of Directors approved "Workwell", a pilot program for 1989 that will provide significant financial rewards and penalties to employers based on the success of their occupational health and safety programs.

Much of the development work for an ambitious new Workers' Benefit System was completed in 1988. This large computerized system will automate the benefit payment function. By reducing delays and permitting quick response time to legislative changes affecting benefit levels, the Workers' Benefit System will improve service delivery. Once system enhancements and refinements are made, the Workers' Benefit System will be fully operational by the end of 1989.

The Board will pursue further initiatives during 1989 to enhance the service provided to Ontario's injured workers and employers. Injured workers whose benefits are delayed will be compensated through the payment of interest under a new policy, which will be implemented no later than January 1, 1990. Pending its introduction, there will be an interim policy, to be effective January 6, 1989.

Through a review of the claims adjudication process, the Board will develop a comprehensive new strategy by the fall of 1989 to ensure fair and prompt entitlement decisions. Also in 1989, the Board will develop a client contact strategy to improve telephone, over-the-counter and written communications with clients.

Financial Soundness

Sound financial management continues to be fundamental to all present and future Board actions. Before implementation, policy and strategic directions are evaluated carefully from the standpoint of cost-effectiveness and simple, financial common sense.

The workers' compensation system in Ontario is funded entirely by employers through payroll assessments levied under the authority of the *Workers' Compensation Act*. The number of employers in the 109 rate groups under Schedule 1 of the Act, those insured through collective liability, grew to 201,000 in 1988, up from 196,000 in 1987. Assessment income from Schedule 1 employers in 1988 totalled $2.28 billion, up from $1.96 billion the previous year. The average assessment rate increase in 1988 was 4.9 per cent, compared with 8.7 per cent in 1987.

The assessment obligations of each rate group depend on the rate group's recent experience in injury frequency, average costs per claim and the size of the rate

group's workforce. Each assessment rate also includes a portion which contributes towards the elimination of the rate group's unfunded liability. This portion is collected as part of a long-term financial strategy, adopted by the Workers' Compensation Board in 1984, to eliminate the unfunded liability by 2014. The unfunded liability is the gap between the lump sum required to meet all future obligations and the assets currently available to pay these costs.

The approach taken in developing the 1989 assessment rate schedule, approved by the Board of Directors in October 1988, is consistent with this long-term financial strategy to retire the unfunded liability. The 1989 average assessment rate increase, at 3.3 per cent, is the lowest since 1981. Under the 1989 assessment rate strategy, rate increases were limited to a maximum of 10 per cent.

The Board's unfunded liability increased from $6.69 billion in 1987 to $7.35 billion at the end of 1988, an increase of 10 per cent. When expressed in real dollar terms, the increase reduces to 5 per cent. This is well within the projections of the Board's financial strategy and it is expected that the unfunded liability will begin to decline in real terms after next year. The influence of this strategy is also reflected in the continued increase in the funding ratio of the Accident Fund — the ratio of total assets to total liabilities — which rose in 1988 for the third successive year, to a level of 37.9 per cent.

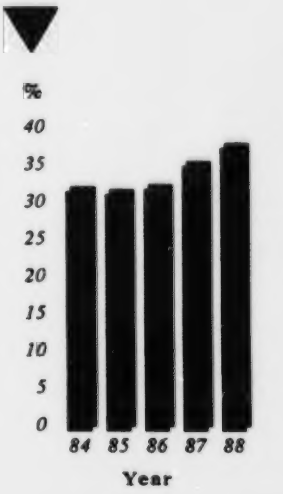
Fiscally responsible management is also evident in the Board's administrative expenses during the past two years. These have remained constant in real terms, except for one-time costs, such as those associated with the ISUs and the Windsor Regional Office.

The introduction of the new medical rehabilitation strategy will increase annual expenditures by between $35 million and $60 million. In addition, it is estimated that full implementation of the new vocational rehabilitation strategy will increase expenditures by a further $30 million per year. These incremental expenditures must be viewed as investments in a more effective workers' compensation system which are expected to be offset by injured workers' more rapid recovery and earlier return to employment.

To reduce the potential for revenue loss by defaulting firms and to enhance the Board's revenue-collecting efforts, a pilot project was commenced in 1988 to introduce monthly assessments for approximately 20,000 employers in the logging, construction, steel and trucking rate groups.

The Board made significant progress in 1988 towards its objective of increasing the proportion of equities in the Investment Fund. During 1988, the Investment Fund grew from $3.0 billion to $3.9 billion. The equity portfolio increased from $207 million to $678 million.

TOTAL ASSETS AS A PERCENTAGE OF TOTAL LIABILITIES, SCHEDULE 1 ACCIDENT FUND - 1984-1988



Public Understanding

In line with the organizational changes and policy and program initiatives which have taken place over the past three years, we have commenced programs to make the Board a more accessible, open organization. In keeping with a discerning, better-educated public and the Board's Mission Statement tenet of public understanding, more emphasis is being given to communication, discussion and consultation with client groups to encourage acceptance of the Board's approach to workers' compensation issues.

The new composition for the WCB Board of Directors, introduced in 1985, consisting of a full-time chairman and vice-chairman and nine external directors representing employers, workers, professionals and the general public, has provided broader representation on the Board's top decision-making body.

During 1988, the Board of Directors solicited the views of stakeholders through two Section 86n reviews. In September, the Board of Directors issued its decision on the review of the Workers' Compensation Appeals Tribunal Decision No. 72, which examined the interpretation of "injury by accident" as found in Section 3(1) of the *Workers' Compensation Act*.

The Board of Directors determined that "injury by accident" in the sense of "a chance event occasioned by a physical or natural cause", as the words are used in Section 1(1)(a)(ii) of the Act, requires that there be an identifiable occurrence separate from the injury. On the other hand, an injury which occurs without a chance event and which is the result of the work performed, whether it occurs suddenly or develops over a long period of time, falls within the meaning of the words "disablement arising out of and in the course of employment" contained in Section 1(1)(a)(iii) of the Act.

A number of related issues, however, could not be settled by the Board of Directors due to lack of submissions. The Board asked that a policy review of these issues be undertaken in 1989 through a consultation process.

The Board of Directors also began a review of the WCB's chronic pain disorder and retroactivity policies, which will be completed in 1989. Once written submissions are received, the Board will provide interested parties with an opportunity to elaborate on their written briefs in an oral hearing.

Early in 1988, the WCB adopted a formal consultation strategy to provide its stakeholders with a more meaningful role in the initial policy development process. A core group of major stakeholders, representative of injured worker advocacy groups, labour unions, employer groups and professional communities, meet regularly. Depending on the issue, the core group may be expanded to include other stakeholders with a special interest or expertise. In addition, consultation packages, formatted to provide a statement of the current policy, are sent to selected stakeholders. Written responses and viewpoints are encouraged.

In late 1987, an inquiry team comprising John Biddell, former partner with Clarkson Gordon, and Cliff Pilkey, former president of the Ontario Federation of Labour, was appointed to examine the impact of the WCB's revenue and assessment policies relating to the logging industry. The Report of the Inquiry was distributed for public comment in December 1988. When those comments have been received, the Board will review the Report's recommendations, examine their impact on the industry and consult with interested groups prior to developing a response to the issues addressed.

In March 1988, the Board released the first issue of *Policy Report*. This bimonthly newsletter outlines new or changing WCB policies and explains emerging issues for interested stakeholders.

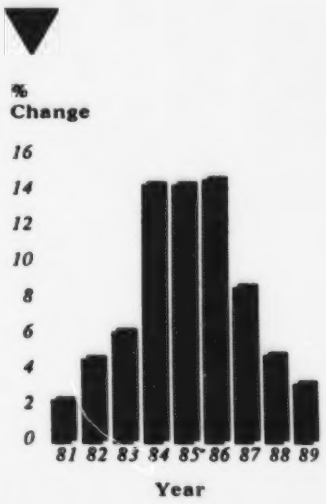
Through the Board's annual employment campaigns, employers are canvassed and informed of the advantages of hiring rehabilitated workers. During 1988, 15 separate week-long campaigns took place throughout major communities in Ontario. Approximately 1,400 job opportunities were identified and 300 injured workers placed.

Accessibility to the Board by the francophone community was improved through the creation of a French Services Branch in January 1988. The Branch serves to consolidate and centralize the delivery of French-language services within the Board's operating areas. A review during 1988 indicated that approximately 93 per cent of claim files requiring service in the French language are located in the Sudbury and Ottawa Regional Offices. In January 1989, the Board's French translation services will be transferred to these offices.

A bilingual lexicon, containing terms drawn from the Board's operations, was developed in 1988. The Board also continued to provide counselling and communication services in third languages.

During 1988, a reorganized Communications Branch, with greater emphasis on issues monitoring and management, continued its range of customer service and public information support for the Board and its programs. To promote the spirit of openness and two-way communication between the Board and its client groups, a new communications strategy is being developed for 1989.

PER CENT CHANGE IN THE AVERAGE RATE OF ASSESSMENT, SCHEDULE 1 - 1981-1989



* *Adjusted for increase in assessable earnings ceiling under Bill 101 in 1985.*

Nineteen eighty-nine is the 75th anniversary of the passage of the Ontario *Workers' Compensation Act*. To mark the occasion and to further the Board's goal of public understanding, an anniversary symposium is being planned for the fall. Several hundred representatives from labour groups, employer groups, legislators and the health care community will be invited. The program will focus on recent changes in the Board's legislative framework, new approaches to medical and vocational rehabilitation, and the WCB reorganization.

Responsible Administration

Initiatives undertaken over the past three years have focused on creating a more just, humane, streamlined and effective organization. The result is a more efficient and responsible administration of the Workers' Compensation Board and its mandate.

In 1989, the Board will pursue several technological initiatives to strengthen its administrative management. Much of this groundwork was set when the Board installed a more powerful mainframe computer and a new office automation system. Both have provided the organization with the capacity to adapt to future technological advances.

The development of the Workers' Benefit System, which will automate the benefit payment function, allows for more effective claims management. The system will also reduce the administrative costs associated with unnecessary paper flow and duplication of functions.

To develop a data strategy for the Board, a corporate data group will be established in 1989. The strategy will ensure consistent statistical reporting of Board operations and provide management with expanded information for planning, monitoring and evaluating operational performance.

The Board is also evaluating electronic imaging, a technology that will scan, store and index all incoming claims and firm documents. Although the technology is still being investigated, if successful, imaging would address problems associated with movement, storage and retrieval of high volumes of documents.

Responsible administration also means a commitment to employment equity in the workplace. A survey of WCB staff was conducted in May 1988 to determine the demographic characteristics of the Board's workforce, including information about race, gender, disability and job. This information will be used in the Board's planning of effective employment equity strategies.

A review and evaluation of the Board's Work Experience Opportunity Program was also conducted during the year. The program, administered by the Board's Employment Equity Office in conjunction with vocational rehabilitation staff, facilitates the employment of rehabilitated individuals at the Board. Evaluation results indicated that the program is effective in placing injured workers back in the workforce.

A broad strategic plan for the Board will be developed in 1989. Incorporated into this plan will be the strategies for assessment rates, investments, medical rehabilitation, vocational rehabilitation, claims adjudication, revenue, communications, information systems, human resources and facilities. Based on this overall strategic plan, the WCB will then develop operational plans for each area. This will allow the Board to allocate resources more effectively and to establish responsibility and accountability at an operational level.

During this recent period of rapid organizational change, much progress has been made towards the achievement of the WCB's strategic goals. Efforts to ensure service excellence, financial soundness, public understanding and responsible administration will continue to be the priorities of the Board during its 75th year.

Alan D. Wolfson
Vice-Chairman of Administration
and President

Workers' Compensation Board
Financial Report

Year Ended December 31, 1988

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Financial Report

PRESENTATION

The Workers' Compensation Board raises funds from Ontario employers to compensate workers for work-related injuries.

Statutory obligations require that the Board cover two groups of employers: Schedule 1, the majority of the employers, who are insured through collective liability, and Schedule 2, who are self-insurers, whose costs are administered for them by the Workers' Compensation Board.

The following comments will assist the reader in understanding the WCB's financial statements:

HIGHLIGHTS

	1988	1987	Change
	($ millions)		
Income	$2,693	$2,365	+13.9%
Total awards and expenses	3,152*	2,848	+10.7%
Assets	4,508	3,702	+21.8%

* *Excludes this year's special charge to be comparable to last year.*

FINANCIAL POSITION

The Board's assets ($4.5 billion) increased by 22% over 1987. The major contributor to the increase in assets is marketable investments ($3.9 billion) which increased 29% compared to 1987.

Total liabilities ($11.9 billion) rose by 14% over the past year.

While total liabilities continue to exceed total assets (giving rise to the existence of an "unfunded liability"), **the WCB is financially sound, and able to meet all foreseeable future obligations:**

- Annual revenues far exceed annual cash payments, and this is expected to continue.
- 1988 revenues more than cover the total cost of 1988 claims.
- While the overall size of our actuarial liabilities is substantial ($11.7 billion), only small portions of this are expected to fall due (i.e. to be paid) in the next few years. In each of those years it is expected that these liabilities will be covered by our revenues, and therefore, existing assets are expected to continue to grow.
- The Board's published strategy to eliminate the unfunded liability by the year 2014 is in place and on target.

As shown in the Ten-Year History, the Board's unfunded liability has risen substantially in the last few years. This is primarily as a result of:

- Ad hoc legislated increases to benefit levels without corresponding funding level adjustments.
- Limits placed on individual assessment rate increases.
- Delays in assessing based on new maximum earnings when changed/legislated.
- Increasing propensity with which a disability is considered to have a permanent residual effect.

RESULTS OF OPERATIONS

In 1988, the WCB continued to see a large positive net cash flow of $664 million. This cash flow, which has been invested, is the result of two principal factors:

- **Timing differences**

  Our assessment rates are established to cover the full expected cost of current year's claims: current year's claims involve not only current payments but also the significant future payments which are expected to be required.

- **Inclusion of a surcharge**

  Our assessment rates have been increased during the past four years by a surcharge, in a planned strategy to fund fully total liabilities over a period of thirty years.

However, on an accrual basis, comparing (a) the expected total cost for 1988 claims (i.e. payments made plus payments expected to arise in the future, when all costs are in), plus payments made in 1988 on prior year claims, plus increases in liabilities on prior year claims, with (b) the total revenues we collected, the result is an excess of claims benefits and expenses over income, by an amount of $659 million.

INVESTMENTS

The Board observes a conservative investment policy, to protect the interests of injured workers and employers.

Current guidelines of this policy are:

- **Meet** all legislative requirements.
- **Maximize** return within acceptable risk.
- **Emphasize** cash management; matching investment activity with the Board's day-to-day cash flows.

In 1988 we significantly increased the portion of our portfolio invested in equities and in 1989 this strategy will continue.

The Board maintains a diversified portfolio, including federal and provincial government securities, as well as corporate bonds, stocks, and real estate investments, thereby reducing the risk of over-exposure in any one area.

Relative percentages (at book value) are:

	1983	1984	1985	1986	1987	1988
Long-Term Investments						
• bonds						
– government	39	38	37	29	27	30
– corporate	24	27	35	39	35	27
• equities						
– Canadian	-	-	-	3	4	12
– U.S.	-	-	-	2	3	3
• real estate and mortgages	25	23	21	19	15	15
Sub-Total	88	88	93	92	84	87
Short-Term (money market instruments)	12	12	7	8	16	13
	100	100	100	100	100	100

Further data on the Board's investment portfolio is shown in the notes to the financial statements.

RATE SETTING

The administrative work of the Board includes responsibility for classifying, assessing, auditing and collecting employer accounts; setting assessment rates together with administering experience rating plans; monitoring the investment portfolio; and providing accounting and budgeting services for the Board's claims and administrative activities.

In 1988, the Board continued to use a rate-setting philosophy which provides for collective liability among employers, but which also reflects the realities of their own businesses and industry groups.

In 1988, 201,000 Schedule 1 employers were assessed by the Workers' Compensation Board. The average assessment rate per hundred dollars of assessable payroll was $3.02 in 1988, an increase of 4.9% over the 1987 average rate of $2.88. The maximum assessable earnings increased to $35,100 in 1988 from $33,600 in 1987. These increases, along with larger payrolls reported by Ontario employers, resulted in a 16% increase in assessment revenue, from $1.96 billion in 1987 to $2.28 billion in 1988.

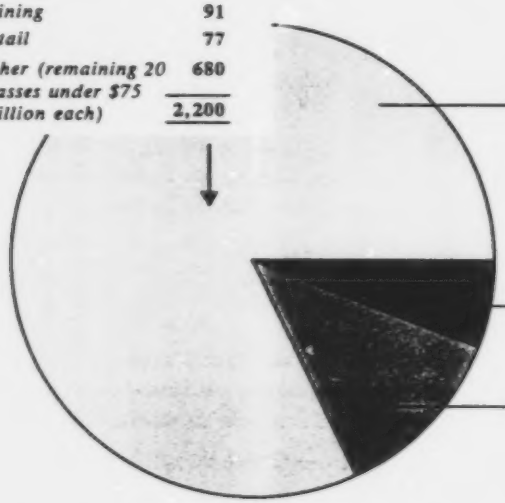
It is the policy of the Board to set and publish rates at an early date so that employers may budget for the coming fiscal year. Assessment rates for 1989 were approved by the Board in October of 1988. The average increase over 1988 will be 3.3%, with no individual rate increase greater than 10%, and altogether 41 rate groups will experience a rate decline for 1989.

REVENUE AND EXPENSE

The next two pages show principal sources of revenue and where that money is spent:

REVENUE – WHERE THE MONEY COMES FROM

Industry	$ millions
manufacturing (general)	338
construction	353
hospitals, restaurants, wholesale	253
manufacturing (vehicles)	231
transportation/ trucking	177
mining	91
retail	77
other (remaining 20 classes under $75 million each)	680
	2,200

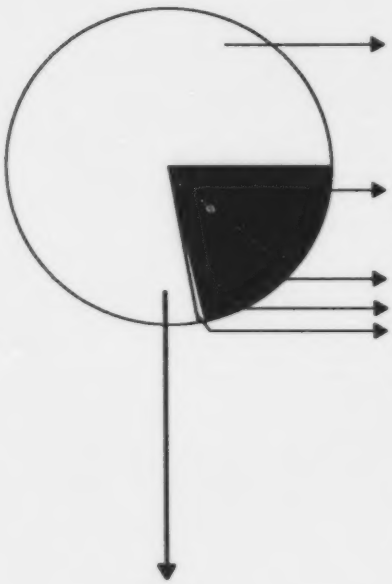


	$ millions
Assessments from Schedule 1 Employers (Net of Penalties, Bad Debts and Experience Rating Credits)	2,200
Revenue from Schedule 2 Employers	177 *
Investment Income (from Sch. 1 and 2)	316
	2,693

* *Revenue from Schedule 2 employers is broken down as follows:*

	$ millions
Provincial and Municipal Government	110
Federal Government	29
Others	38
	177

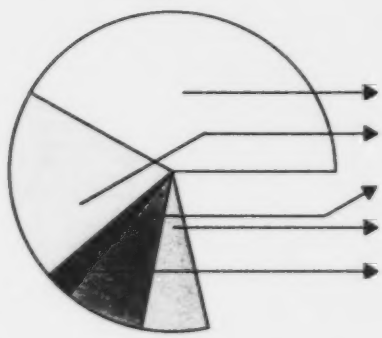
SPENDING – WHERE THE MONEY GOES



	$ millions
Schedule 1 Benefit Payments	1,471
Schedule 1 Administration	197
Schedule 2 Benefit Payments and Expenses	177
Accident Prevention	39
Legislative Obligations (Industrial Disease Standards Panel, WCAT, etc.)	26
	1,910

BENEFITS

Schedule 1



	$ millions
Temporary Compensation	608
Workers' Pensions	397
Rehabilitation	199
Health Care	187
Dependency	80
	1,471

The pages that follow are the WCB's official "annual financial statements", prepared to comply with all statutory requirements and in accordance with the policies detailed on page 32.

Responsibility for Financial Reporting

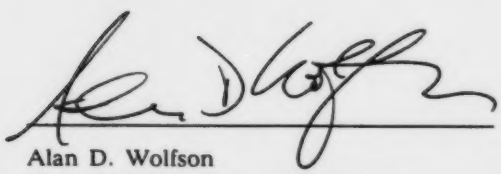
The accompanying financial statements were prepared by management in accordance with generally accepted accounting principles, consistently applied, and include some amounts based upon management's best estimates and judgements. Any financial information contained elsewhere in the annual report conforms to these financial statements.

Management is responsible for the integrity of the financial statements and has established systems of internal control to provide reasonable assurance that assets are properly accounted for and safeguarded from loss. The Board of Directors has established an Audit Committee, comprising three directors who are not officers or employees of the Board, to ensure that management fulfills these responsibilities. The Audit Committee meets periodically with management, the internal auditors and the external auditors to ensure that their responsibilities are properly discharged, with respect to financial statement presentation, and disclosure and recommendations on internal control.

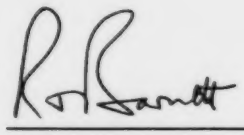
The Internal Audit Branch performs audits designed to test the adequacy and consistency of the Board's internal controls, practices and procedures.

The external auditors, Deloitte, Haskins & Sells, working on behalf and under the direction of the Provincial Auditor, have performed an independent examination of the financial statements of the Board in accordance with generally accepted auditing standards and accordingly included an evaluation of the Board's systems of internal control. The Provincial Auditor's report outlines the scope of this independent examination and his opinion on the financial statements of the Board.

The firm of Eckler Partners Ltd. has been appointed as the independent consulting actuaries to the Board for year-end 1988. Their opinion on the adequacy and appropriateness of the valuation of the Board's actuarial liabilities, and on the proper provision for these costs, is presented as a part of these financial statements.



Alan D. Wolfson
Vice-Chairman of Administration
and President



Robert J. Barnett
Executive Director
Finance and Administration
and Chief Financial Officer

April 21, 1989

Statement of Income and Expenses

WORKERS' COMPENSATION BOARD

Statement of Income and Expenses
For Year Ended December 31, 1988

	1988			1987
	Self-Insured	Insured Through Collective Liability	Total	Total
		(in $000's)		
INCOME				
Assessment (Note 9)	$ 176,600	$ 2,200,662	$ 2,377,262	$ 2,091,929
Investment (Note 11)	238	315,776	316,014	272,713
	$ 176,838	2,516,438	2,693,276	2,364,642
EXPENSES				
Awards				
– Benefits paid (Note 10)	153,599	1,470,868	1,624,467	1,463,509
– Provision for increase in estimated present value of future payments to Schedule 1 claimants – special (Note 6b)				
– current year	–	46,000	46,000	–
– prior years	–	154,000	154,000	–
– normal	–	1,243,000	1,243,000	1,096,000
– Total value of benefit claims/awards	153,599	2,913,868	3,067,467	2,559,509
Administrative and other expenses (Note 12)	23,239	261,736	284,975	288,613
	$ 176,838	3,175,604	3,352,442	2,848,122
Excess of expenses over income		(659,166)	(659,166)	(483,480)
Unfunded liability, beginning of year		(6,690,658)	(6,690,658)	(6,207,178)
Unfunded liability, end of year		$ (7,349,824)	$ (7,349,824)	$ (6,690,658)

Ontario

OFFICE OF THE PROVINCIAL AUDITOR

Box 105, 15th Floor, 20 Dundas St. West
Toronto, Ontario M5G 2C2
(416) 974-9866

To the Workers' Compensation Board
and to the Minister of Labour

I have examined the balance sheet of the Workers' Compensation Board as at December 31, 1988 and the statements of income and expenses and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Board as at December 31, 1988 and the results of its operations, and the changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied, except for the change in the method of accounting for certain investments as described in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

D. F. Archer, F.C.A.
Provincial Auditor

Toronto, Ontario
April 21, 1989

Balance Sheet

WORKERS' COMPENSATION BOARD

Balance Sheet – December 31, 1988

	Note	1988	1987
		(in $000's)	
ASSETS			
Cash		$ 223,725	$ 364,555
Investments	3	3,909,313	3,039,124
Other assets	4	347,274	267,838
Fixed assets	5	27,778	30,629
		$ 4,508,090	$ 3,702,146
LIABILITIES			
Accounts payable and accrued charges	8	$ 158,947	$ 138,590
Current portion of future payments to Schedule 1 claimants for past claims	6	1,187,000	950,000
Capital lease obligations	14	5,011	6,577
Net deposits	7	30,956	27,637
		1,381,914	1,122,804
Estimated present value of future payments to Schedule 1 claimants excluding current portion	6	10,476,000	9,270,000
		11,857,914	10,392,804
Unfunded liability	15	(7,349,824)	(6,690,658)
		$ 4,508,090	$ 3,702,146

On behalf of the Board:

Robert G. Elgie
Director

Alan D. Wolfson
Director

Consulting Actuary's Report on the Valuation of the Actuarial Liabilities of the Schedule 1 Accident Fund of the Workers' Compensation Board of Ontario as at December 31, 1988.

The estimated present value of future compensation, pension payments, health care and Section 54 rehabilitation expenses under Schedule 1 on account of accidents that occurred on or before December 31, 1988 in the amount of $11.663 billion has been determined by the Board's Staff Actuaries, after consultation with us. We believe that the assumptions made in this valuation are appropriate and that the methods employed are in accordance with sound actuarial principles. We have made such tests of the calculations as were deemed necessary. We have also examined the data upon which the calculations were based and found it to be sufficient for the purposes of the valuation and consistent with the Board's financial statements.

As noted above, the present value reported above includes provision for rehabilitation payments under Section 54 of the Act, with an estimated present value of $200 million. Such payments were not provided for in previous valuation. As in previous valuations, the present value does not include provision for future claims related to industrial disease or for future expenses of administration.

The present value reported above makes provision for estimated payments in all future years arising from accidents that occurred on or before December 31, 1988. The portion of such payments expected to be made in 1989 is approximately $1.187 billion. This amount was determined on the basis of the long-term assumptions appropriate for the determination of the present value and using a simplified methodology. It does not represent a forecast of actual 1989 benefit payments, which will be influenced by short-term factors.

The valuation was based on the provisions of the Workers' Compensation Act in effect as of January 1, 1989. Full provision has been made for potential future increases in the covered earnings ceiling and in the level of pensions and temporary compensation as provided under the Act by using a net investment return assumption of 3% per annum, on the assumption that investment income in excess of that rate will be required to finance increases in benefits related to inflation.

No provision has been made in the valuation for potential amendments to the Workers' Compensation Act contained in Bill 162 which is currently before the Ontario Legislature.

Except as otherwise noted above, the methods and assumptions employed in the valuation were consistent with those used in the previous valuation, after taking account of changes in claim patterns. A complete description of the methods and assumptions employed in the valuation will be provided in our detailed report to the Board on the valuation.

In our opinion, which includes the foregoing comments, the amount of $11.663 billion as at December 31, 1988 makes reasonable provision for future compensation, pension payments, health care and Section 54 rehabilitation expenses under Schedule 1 on account of accidents that occurred on or before December 31, 1988.

S. Eckler

Samuel Eckler, F.S.A., F.C.I.A.

David A. Short

David A. Short, F.S.A., F.C.I.A.

Actuaries with the
firm of Eckler Partners Ltd.
April 21, 1989

Statement of Changes in Financial Position

WORKERS' COMPENSATION BOARD

Statement Of Changes In Financial Position
Year Ended December 31, 1988

	1988	1987
	(in $000's)	
CASH PROVIDED BY OPERATIONS		
Excess of expenses over income, after increase in actuarial provision	$ (659,166)	$ (483,480)
Items not requiring an outlay of cash:		
Amortization of realized and unrealized losses on investments	15,351	6,446
Amortization of discounts on investments	(83,279)	(59,214)
Depreciation and amortization of fixed assets	5,618	2,707
Provision for increase in estimated present value of future payments to Schedule 1 claimants	1,443,000	1,096,000
(Increase) Decrease in other assets	(85,587)	318,011
Increase in other short-term liabilities	28,394	85,889
	664,331	966,359
INVESTMENT ACTIVITIES		
Purchases of long-term investments	1,673,523	683,600
Proceeds on sale or maturity of long-term investments	(455,378)	(342,887)
	1,218,145	340,713
Net (Decrease) Increase in short-term investments	(555,751)	613,157
Net cash invested	662,394	953,870
Purchase of fixed assets	2,767	15,220
	665,161	969,090
INCREASE (DECREASE) IN CASH DURING THE YEAR	(830)	(2,731)
CHANGE IN SHORT-TERM INVESTMENTS HELD TO FINANCE OPERATIONS	(140,000)	250,000
Cash balance beginning of year	364,555	117,286
Cash balance end of year*	$ 223,725	$ 364,555
* *Made up of:*		
Cash	$ 3,725	$ 4,555
Money market instruments	220,000	360,000
	$ 223,725	$ 364,555

Notes to the Financial Statements

December 31, 1988

1. NATURE OF OPERATIONS

The Workers' Compensation Board is a Crown Agency, which operates by virtue of a statute passed in 1914 and amendments thereafter.

The Board differentiates employers into two groups — referred to as Schedules 1 and 2 by the Act:

Schedule 1 relates to industries where the employers are required to contribute to the Workers' Compensation Board's Accident Fund, and Schedule 2 relates to self-insurers — that is, industries where employers are individually liable for the costs of compensation, health care, rehabilitative costs and pensions paid to their workforce, all of which is done for them by the Workers' Compensation Board, which is then reimbursed for these costs.

2. SIGNIFICANT ACCOUNTING POLICIES

BASIS OF ACCOUNTING

The financial statements have been prepared in accordance with generally accepted accounting principles.

INVESTMENTS

i) **Bonds and Mortgages**

Bonds and mortgages are carried at amortized cost. In the case of mortgages, amortized cost is adjusted for principal repayments.

Realized gains (losses) on the sale of bonds and mortgages are deferred and amortized over the lesser of 20 years or the period to maturity of the security sold.

ii) **Stocks**

Investments in stocks are carried at cost with an adjustment for market value*. The market value adjustment is based on the moving average market method, where realized gains (losses) on the sale of stocks are deferred and amortized over a seven-year period. Unrealized gains (losses) in market value are taken into income and included in the value of the asset on the moving average market basis over a seven-year period.

iii) **Real Estate**

Real estate (units in real estate syndicates) is carried at cost with an allowance toward market value*, based on the moving average market method.

Both realized and unrealized gains and losses are deferred and amortized over a ten-year period.

iv) **Short-Term Securities**

These are money market securities which have a maturity of less than 12 months at time of purchase, and are carried at amortized cost.

Gains and losses from sales are taken into income in the period that they occur.

* *The adoption of the moving average market method in 1988 was a change in accounting policy, from the prior approach of carrying at cost only – but the impact on the results for the prior year is not material and therefore, the change in accounting policy was not applied retroactively.*

v) **Foreign Currency Translation**

Foreign currency investment transactions are translated into Canadian dollars using the exchange rate in effect at the time of the transaction. For valuation purposes, foreign investments are converted to Canadian dollars at the exchange rate in effect at the balance sheet date. Foreign exchange gains and losses on long-term investments are amortized and reflected in their carrying value over a seven-year period.

FIXED ASSETS

Fixed assets are stated at cost. Buildings, equipment, leasehold improvements and motor vehicles are depreciated on the straight-line method at rates calculated to amortize the cost of assets over their estimated useful lives.

ASSESSMENT INCOME

Assessment income is determined on the basis of estimated and actual payrolls reported by employers. At year end, an accrual is calculated to include the additional assessment anticipated as a result of the actual payrolls being greater than estimated.

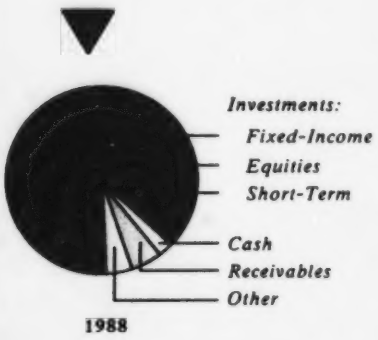
LEASES

Leases are classified as either capital or operating. Capital leases are those which transfer substantially all of the benefits and risks of the ownership of property, and are recorded as the acquisition of an asset and the incurrence of an obligation. The asset is amortized over its useful life and the obligation is liquidated over the life of the lease. Other leases are operating leases and the related rental costs are charged to expense as incurred.

3. INVESTMENTS

	1988		1987	
	($000's)			
	Carrying Value	Market Value	Carrying Value	Market Value
Long-Term				
Bonds	$ 2,216,994	$ 2,199,119	$ 1,854,490	$ 1,841,145
Mortgages	474,014	458,540	424,970	424,970
Equities				
Real estate	95,468	100,561	38,873	39,261
Common shares – Canada	512,326	527,161	106,466	103,567
– Foreign	70,031	66,471	62,033	59,788
Unamortized portion of realized losses, net of gains, on sale of investment	10,806	–	22,431	–
	3,379,639	3,351,852	2,509,263	2,468,731
Short-Term				
Money market – Canada	92,119	92,121	483,066	483,066
– Foreign	390,893	390,478	–	–
Accrued investment income	46,662	46,662	46,795	46,795
	$ 3,909,313	$ 3,881,113	$ 3,039,124	$ 2,998,592

COMPOSITION OF ASSETS



1988

4. OTHER ASSETS

	1988	1987
	($000's)	
Accrued assessment and penalty income	$ 193,402	$ 89,575
Assessment and other receivables	139,534	171,093
Prepaid employee pension expense	12,083	5,418
Prepaid expenses	2,255	1,752
	$ 347,274	$ 267,838

5. FIXED ASSETS

	1988			Depreciation & Amortization Rates
	Cost	Accumulated Depreciation	Net Book Value	
	($000's)			%
Land	$ 6,754	$ –	$ 6,754	–
Buildings	11,185	7,094	4,091	2½
Leasehold improvements	5,206	3,494	1,712	10
Equipment*	34,310	19,826	14,484	20 *
Motor vehicles	1,728	991	737	25
	$ 59,183	$ 31,405	$ 27,778	

* *Includes capital leases (Cost: $11,353), which are amortized over the useful life of the asset.*

6. ESTIMATED PRESENT VALUE OF FUTURE PAYMENTS TO SCHEDULE 1 CLAIMANTS

a) The estimated present value of future payments to Schedule 1 claimants ($11.663 billion) is determined annually by the Board's Actuary and is reviewed by an independent consulting actuary.

This amount includes provisions for claims reported to the Board up to and including December 31, 1988, and claims for accidents which occurred on or before December 31, 1988 but which have not been reported at that date.

As in previous years, provision has not been made for future administration costs of existing claims, or for the cost of future claims for occupational/industrial diseases arising from employment prior to December 31, 1988.

The current portion (payments expected to fall due within the next 12 months - $1.187 billion) is shown separately on the Balance Sheet (1987 – $950 million).

b) The special provisions amounting to $200 million relate to the special costs of workers requiring rehabilitation, and who were injured in 1988 or in prior years. No provision had previously been included in the total liability. (The actuaries estimate that had a provision been in place as at December 31, 1986, the 1987 charge would have been $29 million compared to the 1988 charge of $46 million).

c) These financial statements do not include any estimate for the future payments to existing Schedule 2 claimants as this is not a liability of the Board: it is a liability of the Schedule 2 employers.

7. SCHEDULE 2

The Board adjudicates claims and pays benefits for Schedule 2 workers in the same way as for Schedule 1, and charges these costs to the Schedule 2 employers, plus an administration fee for doing so. Schedule 2 consists mainly of government employers such as the province, municipalities, public libraries and school boards, and employers in industries which cross provincial borders, such as railways, shipping, international airlines and telephone companies.

In addition, some members of the Schedule 2 employer group are required to contribute to a special fund to relieve out-of-the-ordinary expenses (e.g. disaster relief) for their group. The Board requires that security deposits be placed with it by these employers. The deposits received from Schedule 2 employers are invested and interest is paid on the deposit at a previously determined rate.

At December 31, 1988, the balance sheet includes the following related to Schedule 2 employers:

	1988	1987
	($000's)	
Held for them:		
Cash	$ 1,475	$ –
Investments	19,707	15,323
(Market value at December 31, 1988: $19,913)		
Due from them:		
Receivables	9,774	12,314
	$ 30,956	$ 27,637

Schedule 2 employers are individually liable for all current and future claim costs. The Board does not make provision for future liabilities of Schedule 2 employers for past claims, nor does it recognize the future benefits which it will pay and will be reimbursed in full (plus a fee to cover its administrative and other costs).

8. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	1988	1987
	($000's)	
Accounts payable and accrued charges	$ 85,163	$ 68,932
Accrued sick leave and vacation credits	32,990	28,871
Cheques issued and not yet cashed	40,794	40,787
	$ 158,947	$ 138,590

9. ASSESSMENT INCOME

	1988			1987
	Self-Insured	Insured Through Collective Liability	Total	Total
		($000's)		
Assessment Income	$ 176,427	$ 2,280,951	$ 2,457,378	$ 2,122,014
Penalties	173	87,594	87,767	64,009
Bad Debts	–	(102,404)	(102,404)	(52,438)
Experience Rating*	–	(65,479)	(65,479)	(41,656)
	$ 176,600	$ 2,200,662	$ 2,377,262	$ 2,091,929

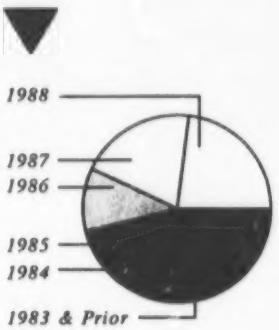
* *The Workers' Compensation Board has had a form of experience rating since 1953. It offers refunds and surcharges based on injury frequency rate and costs. In 1983, the Board introduced an experience rating system (CAD-7) for the construction industry. A new experimental experience rating plan (NEER) was introduced in 1984, and is continuing to be refined. Participation in the NEER program is optional for all non-construction rate groups.*

Where possible, provisions are established to cover future adjustments arising from current and past years' experience. However, consistent with normal insurance industry practice, it is intended that rebates and surcharges under these programs will generally balance out in the long-term.

10. BENEFITS PAID

	1988			1987
	Self-Insured	Insured Through Collective Liability	Total	Total
		($000's)		
Temporary Compensation	$ 66,367	$ 610,328	$ 676,695	$ 593,155
Health Care	19,580	187,222	206,802	179,385
Rehabilitation	15,728	199,186	214,914	192,643
Worker Pensions	42,796	396,865	439,661	426,750
Dependency	9,128	80,160	89,288	73,812
	153,599	1,473,761	1,627,360	1,465,745
Less: recovered from third parties*	–	2,893	2,893	2,236
	$ 153,599	$ 1,470,868	$ 1,624,467	$ 1,463,509

1988 BENEFITS PAID BY YEAR OF ACCIDENT (SCHEDULE I)



* *Claims against third parties responsible for industrial accidents are deducted from paid benefits upon their receipt.*

The benefit categories are defined below:

Temporary Compensation

These benefits are paid to injured workers to compensate them for temporary losses of earnings due to work-related injuries.

Health Care

This category includes payments made to health care professionals, such as physicians and treating agencies, who provide health care treatment to injured workers.

Rehabilitation

These payments include income support payments to workers who are preparing to return to employment, plus payments to agencies for the delivery of vocational and medical rehabilitation services.

Worker Pensions

Pensions are paid to workers who have suffered partial or total permanently disabling injuries.

Dependency

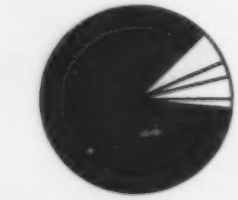
These are payments made to dependents of workers who have died as the result of work-related injuries/diseases.

11. INVESTMENT INCOME

	1988			1987
			($000's)	
	Self-Insured	Insured Through Collective Liability	Total	Total
Investment Income	$ 2,347	$ 332,382	$ 334,729	$ 281,548
Add/Deduct:				
• Amortization of realized losses	(4)	(3,402)	(3,406)	(6,446)
• Amortization of unrealized gains (net of foreign exchange losses)	–	(11,945)	(11,945)	–
• Administration expenses	–	(813)	(813)	(577)
• Investment fees	–	(446)	(446)	–
Interest paid on deposits	(2,105)	–	(2,105)	(1,812)
	$ 238	$ 315,776	$ 316,014	$ 272,713

12. ADMINISTRATIVE AND OTHER EXPENSES

ADMINISTRATION EXPENSES



1988

LEGEND

- *Salaries & Employee Benefits*
- *Communications & Publications*
- *Occupancy*
- *Equipment Costs*
- *Supplies & Services*
- *Other*
- *Travel & Vehicle Maintenance*

The total operating expenses for the Board were:

	1988			1987
			($000's)	
	Self-Insured	Insured Through Collective Liability	Total	Total
Administration	$ 23,239	$ 196,654	$ 219,893	$ 227,785
Accident Prevention	–	39,454	39,454	38,699
Legislated Obligations	–	25,628	25,628	22,129
	$ 23,239	$ 261,736	$ 284,975	$ 288,613

These are more fully described below:

a) ADMINISTRATION EXPENSES*

	1988	($000's)	1987
Salaries and employee benefits	$ 163,468		$ 135,682
Travel and vehicle maintenance	3,725		4,191
Supplies and services	5,727		6,554
Equipment costs, including depreciation	13,490		21,499
Occupancy costs – net	14,608		13,571
Communications and publications	14,956		12,482
Other	6,158		7,034
	222,132		201,013
Less expenses related to:			
Schedule 2	23,239		19,803
Downsview Rehabilitation Centre	1,426		1,522
Investments	813		577
	25,478		21,902
Net charge to Statement of Income and Expenses	$ 196,654		$ 179,111

* *Includes remuneration and expenses for the Board of Directors ($357 in 1988 and $270 in 1987).*

b) ACCIDENT PREVENTION EXPENSES

By Category:

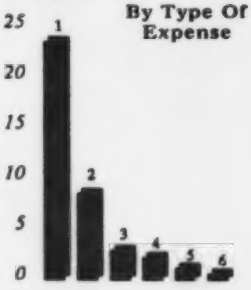
	1988	1987
	($000's)	
Salaries and employee benefits	$ 23,598	$ 22,654
Travel and vehicle maintenance	3,073	3,107
Supplies and services	1,068	789
Equipment costs, including depreciation	1,236	1,167
Occupancy costs – net	2,318	2,251
Communications and publications	8,552	7,246
Other	(391)	1,485
	$ 39,454	$ 38,699

By Safety Association:

Construction Safety Association of Ontario	$ 9,229	$ 9,079
Electrical Utilities Safety Association of Ontario	1,893	1,732
Forest Products Accident Prevention Association	1,563	1,428
The Farm Safety Association Inc.	965	942
Health Care Occupational Health & Safety Association	1,815	1,805
Industrial Accident Prevention Association	15,853	15,353
Mines Accident Prevention Association of Ontario	2,236	2,151
Ontario Pulp & Paper Makers Safety Association	732	677
Transportation Safety Association of Ontario	1,362	1,289
	35,648	34,456
Occupational Health and Safety Education Authority	3,806	4,243
	$ 39,454	$ 38,699

ACCIDENT PREVENTION 1988

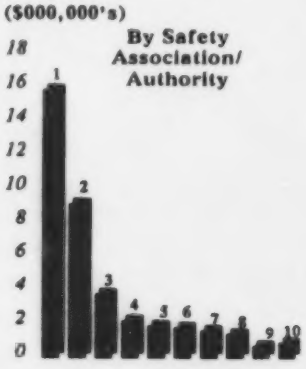
($000,000's)



LEGEND

1. *Salaries & Employee Benefits*
2. *Communications & Publications*
3. *Travel*
4. *Occupancy*
5. *Equipment*
6. *Supplies, Services & Other*

($000,000's)



LEGEND

1. *IAPA*
2. *Construction Safety Assoc.*
3. *OHSEA*
4. *Mines Acc. Prev. Assoc.*
5. *Elec. Utilities Safety Assoc.*
6. *Health Care Occ. Health & Safety Assoc.*
7. *Forest Products Accident Prevention Assoc.*
8. *Trans. Safety Assoc.*
9. *Ont. Pulp & Paper Makers Safety Assoc.*
10. *The Farm Safety Assoc.*

On January 24, 1989 an *Act to amend the Occupational Health and Safety Act* (Bill 208) was tabled in the Legislature by the Minister of Labour. Among the proposed amendments is the creation of the Workplace Health and Safety Agency, which will oversee the Safety Associations (except the Farm Safety Association Inc.), the Occupational Health and Safety Education Authority and the Workers' Health and Safety Centre of the Ontario Federation of Labour.

The proposed Agency will be funded by the Workers' Compensation Board and the Provincial Treasury. However, at this time, it is anticipated that current funding levels will not be increased as the programs are transferred from the Workers' Compensation Board to the new Agency.

LEGISLATED OBLIGATIONS

c) LEGISLATED OBLIGATIONS

The Board is obligated to defray the administrative costs of the *Occupational Health and Safety Act* for the Government of Ontario. The Workers' Compensation Board's cost has been accrued based on the calendar year just ended.

	1988	1987
	($000's)	
Occupational Health and Safety Act	$ 7,724	$ 6,739
Industrial Disease Standards Panel	604	559
Mine Rescue	1,304	1,083
Workers' Compensation Appeals Tribunal	9,366	8,357
Office of the Worker Adviser	5,122	4,227
Office of the Employer Adviser	1,508	1,164
	$ 25,628	$ 22,129

1988

LEGEND

- *Occupational Health and Safety Act*
- *Industrial Disease Standards Panel*
- *Mine Rescue*
- *Workers' Compensation Appeals Tribunal*
- *Worker Adviser*
- *Employer Adviser*

Under Section 86 of the *Workers' Compensation Act*, the Board is obligated to pay the administrative costs of the Workers' Compensation Appeals Tribunal, the Offices of the Worker and Employer Adviser, and the Industrial Disease Standards Panel. All of these autonomous bodies are staffed and managed independently from the Workers' Compensation Board.

Mine rescue costs represent the establishment, maintenance and operation of mine rescue stations, under the *Occupational Health and Safety Act*, as set out in Section 1 (1)(b) of the *Workers' Compensation Act*.

13. RELATED PARTY TRANSACTIONS

In addition to the legislated obligations referred to above, the financial statements also include amounts resulting from routine operating transactions conducted at prevailing market prices with various Ontario Government-controlled ministries, agencies, and Crown corporations with which the Board is related.

Account balances resulting from these transactions are included in the financial statements and are settled on normal trade terms.

14. COMMITMENTS AND CONTINGENCIES

(a) Leases

At December 31, 1988, the Workers' Compensation Board was committed under non-cancellable leases requiring future minimum payments as follows:

	Capital	Office Space	Other Operating	Total
		($000's)		
1989	$ 3,043	$ 8,490	$ 2,781	$ 14,314
1990	2,554	8,126	1,756	12,436
1991	–	7,640	541	8,181
1992	–	6,910	11	6,921
1993	–	6,633	–	6,633
Beyond 5 years	–	6,164	–	6,164
Total minimum payments	$ 5,597	$ 43,963	$ 5,089	$ 54,649
Less: amount representing interest	586			
Obligations under capital leases	$ 5,011			

The Board rents office space and equipment under operating lease arrangements having various expiry dates. Shown above are the aggregate minimum annual rental payments under these arrangements. The "Other" operating leases represent long-term equipment rentals.

(b) Investment Transactions

At December 31, 1988, future investment transactions outstanding amounted to $63.4 million, of which $3.9 million related to real estate and $59.5 million related to mortgages.

(c) Pending Legislation

On June 20, 1988, the Minister of Labour introduced an *Act to amend the Workers' Compensation Act*.

This proposal, known as Bill 162, will institute a system of compensation in which workers who are permanently impaired as a result of a work-related injury will receive benefits for non-economic loss, loss of future earnings, and loss of retirement income.

This amendment to the *Workers' Compensation Act*, which has passed its Second Reading in the House, will — if enacted in substantially its present form — increase the Board's liabilities. No provision for such an increase in liability has been made in the 1988 Financial Statements. (However, a reduction in the cost of future permanent disabilities under Bill 162 will provide the funding to retire this additional liability.)

(d) Legal Actions

Asbestosis

In December of 1986 the U.S. Bankruptcy Court approved a plan to establish the Manville Settlement Trust with assets in excess of $2 billion. Claims may be made against the Trust, for injuries that workers or others may have suffered, due to exposure to Johns-Manville asbestos products.

The Workers' Compensation Board has, for some years, been paying benefits and expenses to workers suffering from asbestos-related diseases. In view of this, the Board, in 1987, took steps to exercise any subrogated rights that it might have in respect of some 600 asbestos-related claims filed with the Board since 1975 by Ontario workers or their dependents.

At this time the amount the Board might recover from the Manville Trust cannot be quantified.

Other

The Board is party to various claims and lawsuits which are being contested. In the opinion of management, the outcome of such claims and lawsuits will not have a material adverse effect on the Board.

15. UNFUNDED LIABILITY

The Workers' Compensation Board has developed a strategy to eliminate this liability (by means of a surcharge added to all Schedule 1 assessments) by the year 2014. This strategy is implemented and in effect.

16. EMPLOYEE BENEFITS

In addition to direct salaries and pensions, employee benefits represented a $21.2 million expense in 1988 (1987: $18.7 million), additional details are as follows:

a) Superannuation

The Board has a defined benefit-based pension plan for its employees, and employees of the provincial safety associations, which provides for pensions based on years of service and earnings rates near retirement.

Net employer's pension expense for 1988 for this defined benefit-based pension plan consists of the following components:

	1988	1987
	($000's)	
Current service cost for current employees	$ 9,021	$ 8,264
Interest added to accrued benefits	14,807	13,272
Interest received on pension fund assets	(19,479)	(17,076)
Amortization of surplus	(3,942)	(3,220)
Net pension expense	$ 407	$ 1,240

As at December 31, 1988, the plan's funded status was:

	1988	1987
	($000's)	
Pension assets	$ 307,507	$ 276,232
Accrued benefits	$ 229,892	$ 207,031

Current contribution levels by both employer and employees, and current pension entitlements, are under review to ensure compliance with recent pension reform and amendments to the existing plan will likely be implemented during 1990.

b) Other Benefits

The Board provides comprehensive health insurance coverage to its permanent full-time and regular part-time staff at an annual cost of $4.4 million (1987: $3.6 million). The benefits include health insurance, dental, long-term disability and life insurance. The Board also provides vacation and sick leave benefits for its employees.

c) Retiree Programs

Retirees' health benefit coverage is provided by the Board, at a cost of $476,805 (1987: $360,197) which includes supplementary health, vision care, dental and life insurance.

Board payments for retiree programs are expensed as costs are incurred, except that in 1988 the Board provided $8.5 million to fund (pre-pay) a pensioners' life insurance benefit for certain long-term employees to recognize a life insurance retirement benefit commitment to this employee group.

17. COMPARATIVE FIGURES

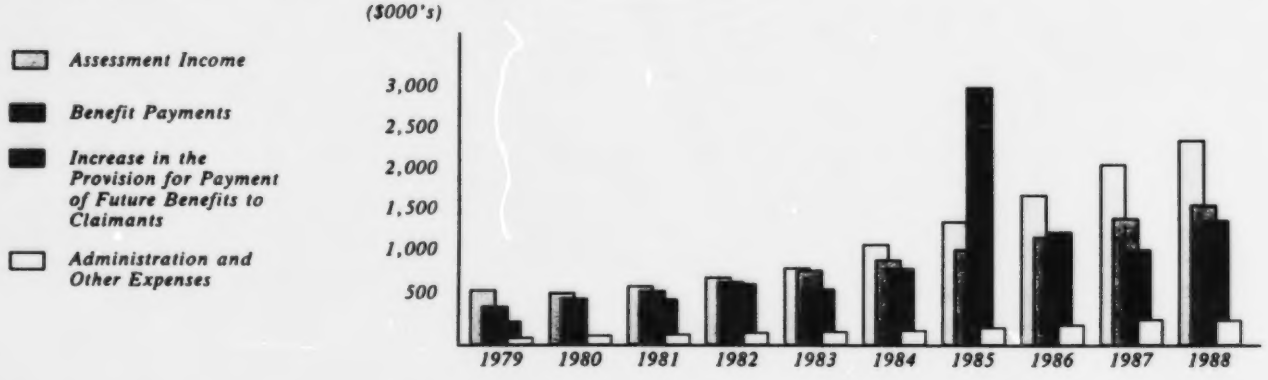
Certain of the comparative figures have been reclassified to correspond to the current year's presentation.

Ten-Year History

TEN-YEAR SUMMARY OF THE STATEMENT OF INCOME AND EXPENSES ($000's)

WORKERS' COMPENSATION BOARD (Schedules 1 and 2)	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
INCOME										
Assessment income	$629,049	$591,882	$673,247	$ 781,201	$ 882,458	$1,160,272	$1,424,310	$1,737,312	$2,091,929	$2,377,262
Investment income	120,508	141,437	166,045	170,066	166,574	175,803	186,347	216,705	272,713	316,014
	749,557	733,319	839,292	951,267	1,049,032	1,336,075	1,610,657	1,954,017	2,364,642	2,693,276
EXPENSES										
Benefits paid	431,175	526,989	620,513	725,915	860,093	978,611	1,098,526	1,246,269	1,463,509	1,624,467
Provision for increase in estimated present value of future payments to Schedule 1 claimants										
- special	190,000	—	360,000	335,000	347,000	604,000	*1,860,000	250,000	—	200,000
- normal	70,000	100,000	160,000	365,000	293,000	276,000	1,130,000	1,054,000	1,096,000	1,243,000
Total value of claims/awards	691,175	626,989	1,140,513	1,425,915	1,500,093	1,858,611	4,088,526	2,550,269	2,559,509	3,067,467
Administration and other expenses	78,729	100,070	116,646	137,325	146,141	162,624	192,458	230,124	288,613	284,975
	769,904	727,059	1,257,159	1,563,240	1,646,234	2,021,235	4,280,984	2,780,393	2,848,122	3,352,442
Excess of expenses over income	(20,347)	6,260	(417,867)	(611,973)	(597,202)	(685,160)	(2,670,327)	(826,376)	(483,480)	(659,166)
Unfunded liability beginning of year	(384,186)	(404,533)	(398,273)	(816,140)	(1,428,113)	(2,025,315)	(2,710,475)	(5,380,802)	(6,207,178)	(6,690,658)
Unfunded liability end of year	($404,533)	($398,273)	($816,140)	($1,428,113)	($2,025,315)	($2,710,475)	($5,380,802)	($6,207,178)	($6,690,658)	($7,349,824)

*Amendment by the passage of Bill 81, which indexed future annual increases in pensions and temporary compensation payments based on the change in the consumer price index.



OTHER STATISTICS

Total assessable payroll (based on employer estimates $000,000's)	$ 30,600	$ 32,600	$ 37,000	$ 40,800	$ 41,800	$ 48,435	$ 52,228	$ 58,611	$ 65,000	$ 71,581
Number of WCB employees as at December 31 each year*	N/A	N/A	N/A	N/A	3,682	3,854	4,203	4,679	4,688	4,852
Incidents reported as work injuries	460,972	444,674	415,044	349,747	344,758	388,845	426,880	442,080	469,681	489,819

N/A — Not available
*Includes part-time and temporary staff

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London, Ontario
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Ottawa, Ontario
K1R 7X7
(613) 238-7851

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Sudbury, Ontario
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North Bay, Ontario
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